

How K mart Plans to Be Born Again, Again
An American Leads British Steel Back from the Brink
Boyd Jefferies, the Mighty Mouse of Block Trading

\$2.50

September 21, 1981

FORTUNE

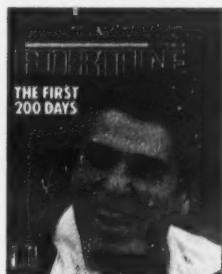
THE FIRST 200 DAYS

An Appraisal

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The cover photograph of a euphoric Ronald Reagan was taken at his ranch by Tom Zimmeroff on the day the President signed his tax bill. An appraisal of Reagan so far begins on page 62.



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ACKNOWLEDGMENTS

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PHILANTHROPY

The Unsentimental Corporate Giver

by LEE SMITH

A teenager would call it a guilt trip.

Corporations have money and others don't, so ... The Reagan Administration, cutting the budget, suggests that corporations rescue at least some of the programs the federal government will no longer be able to support. Independent foundations warn grant recipients that they will be able to carry the recipients' research projects for only a year or so. And after that? Try a corporation.

Corporate philanthropy will not come close to filling those expectations. If corporations gave the maximum the Internal Revenue Service allows them to deduct—5% of taxable income—their contributions would amount to only about \$12 billion, or roughly a third of the reduction in planned federal spending for fiscal 1982.

In any case, few corporations engage in philanthropy because others need money, as though a corporation were a well-heeled uncle who should spread his good fortune around the family. For the most part, corporations give because it serves their own interests—or appears to.

At first, corporate philanthropy—a phenomenon confined largely to North America—was closely bound to the giver's self-interest; it emerged in the late 19th century, when the railroads sponsored the YMCA hostels where their employees bunked down. When many more companies joined the contributions parade during World War I and started giving to the Red Cross, their self-interest was further removed but still identifiable. These days companies give to a mind-boggling variety of charities, most of them at least indirectly related to self-interest. A typical corporation might give money to the hospital that will be called upon when there's an explosion in Plant

Research associate: Louis S. Richman



No. 4; the local college that supplies employees and the museum that uplifts them; and the U.S. Olympic Swimming Team, because a customer's son is on it.

Some large companies give money to causes that at a glance seem remote from the company's day-to-day concerns but on examination turn out to be important to them. Xerox, for example, lends money to provide housing for the poor in Stamford, Connecticut, the company's

headquarters town. The money earns no interest for Xerox, but it earns the company a reputation as a good neighbor. Similarly, Atlantic Richfield helps support native artisans in Alaska partly because the company is the largest oil producer on the North Slope and wants the goodwill of the local population.

How much corporations give is impossible to determine precisely. For a start, charity means different things to different

THE BIG GIVERS

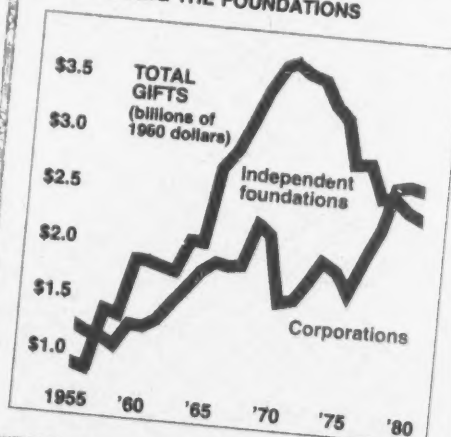
THE MOST GENEROUS INDUSTRIAL COMPANIES OF 1980	Contributions* (millions)	Percent of pretax earnings
Exxon	\$38.1	1.03%
IBM	\$35.0	1.19%
Atlantic Richfield	\$34.0	1.26%
General Motors	\$22.6	(no earnings)
Mobil	\$20.6	1.56%

EVEN SOME BIG LOSERS GAVE	1980 net loss (millions)	Contributions* (millions)
Chrysler	\$1,710	\$2.2
Ford	\$1,543	\$11.2
General Motors	\$763	\$22.6
International Harvester	\$397	\$3.0
American Motors	\$196	\$0.4
Firestone	\$106	\$1.7

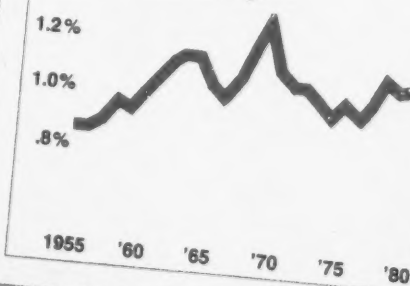
*includes corporate foundations

Oil companies dominated the supply side of corporate philanthropy in 1980. Last year's losers were able to continue giving partly because in good years they put money into corporate foundations that can pay out in bad ones. Unlike an independent foundation, such as Ford or Carnegie, which is generally established with a onetime bequest, a corporate foundation retains ties to the company, which not only replenishes its coffers but decides where the money will go. The giving of independent foundations depends on the value of their portfolios, which explains their largess during the go-go stock-market years of the late 1960s. Corporate generosity depends mostly on earnings. As a percentage of earnings, corporate giving peaked in 1969—most likely because an income-tax surcharge that year made giving especially cheap.

SURPASSING THE FOUNDATIONS



CORPORATE GIVING as percent of pretax earnings



companies. Exxon listed the \$2.8 million it paid last year to underwrite *Great Performances* on public television as a charitable contribution, while Mobil called the \$1.9 million it paid for *Masterpiece Theater* public relations.

Conference Board surveys suggest that in 1980 corporations spent nearly \$2.6 billion on what they considered charity, or a little over 1% of domestic pretax profits. But that estimate represents only the dollar outlays companies declared on their tax returns (for tax purposes charitable contributions are treated as ordinary business expenses). It generally does not take into account such forms of giving as employee time spent helping a day-care cen-

ter straighten out its books, depreciated equipment donated to local churches, or the use of the company auditorium by the Shakespeare society. Eastman Kodak examined its records for 1980 and calculated that for every dollar of the \$10 million it gave in direct contributions, it gave an additional \$2 in time and equipment.

Some doughty do-gooders are pushing corporations to give 5% in direct payments. Two principal pushers are Kenneth N. Dayton, chairman of the executive committee of Dayton Hudson Corp., and Lawrence A. Wien, a New York attorney and real-estate man and vice chairman of the ever-hungry Lincoln Center.

Dayton Hudson started giving 5% in

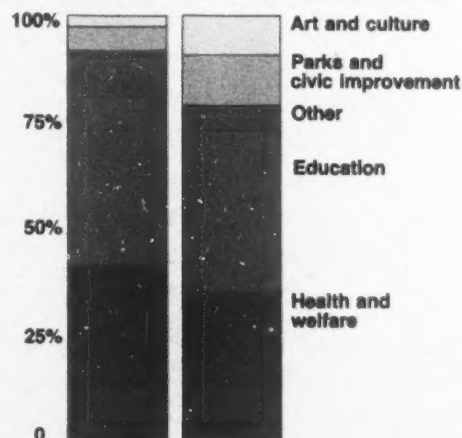
1945, directing most of the money into cultural and welfare programs in Minneapolis and St. Paul and other cities in which it operates stores. The company's munificence is based partly on expediency; stores can't survive in devastated cities. But social conscience is at least as important a motive. "I totally reject the view that the only business of business is business," says the soft-spoken, 59-year-old Dayton. "The purpose of business is to serve society." Following Dayton Hudson's example, 44 other businesses in the Twin Cities also give 5%. In addition, 5% clubs have sprung up in Louisville (48 members) and Baltimore (23 members), and there are 2% clubs

THE BIG TAKERS

THE TEN LARGEST RECIPIENTS OF CORPORATE PHILANTHROPY IN 1980	Corporate funds received (millions)
American Red Cross	\$40.3
Public Broadcasting Service	\$30.0
Boy Scouts	\$16.3
YMCA	\$15.1*
Massachusetts Institute of Technology	\$14.0
University of Michigan	\$13.8
University of Illinois	\$12.7
Harvard University	\$12.4
Salvation Army	\$12.1*
Stanford University	\$11.0

*United Way estimates.

WHERE THE CORPORATE DOLLARS WENT



Art and culture get a larger share of corporate contributions these days, partly because companies now support local museums and symphonies to induce employees to take jobs in smaller cities. Health and welfare get relatively less; government and insurance plans have as-

sumed more of the cost of hospital care. Higher education continues to be the largest recipient, however. Although it's commonly believed that most of that money goes to private colleges, state universities are big beneficiaries, especially those with large engineering schools.

in Kansas City, Seattle, and elsewhere.

Wien, cordial but crisply formal, persuades by confrontation. Several years ago, concerned about the inability of non-profit organizations to meet rising costs, he decided to put the squeeze on big corporations. Borrowing from the tactics of other corporate gadflies, he bought stock in companies like Texaco, Northwest Industries, and Caterpillar Tractor, and put in their proxy statements resolutions requiring the companies to give more. "My main objective is to bring the contributions issue to the attention of top management," says Wien. "We go out to lunch and reach a compromise. This project has cost me about 70 lunches." The return

on investment has been impressive. He helped persuade AT&T, for example, to step up its giving from the current level of less than one-half of a percent to a full 1% in the next few years, up from \$38 million to \$100 million or so.

The biggest companies aren't likely to get close to 5%. AT&T says it would be impossible for a company its size to give away that amount constructively. At 5%, AT&T would be laying out \$500 million a year—or more than five times as much as the Ford Foundation, the largest independent foundation. The company would have to hire a huge staff of philanthropoids, as they are called in the trade. (According to one estimate, it takes

one philanthropoid to give away \$1 million prudently.) Customers and shareholders wouldn't tolerate such openhandedness—and even if they did, it would be ominous for a philanthropic powerhouse to have \$500 million worth of influence over social and cultural projects.

Arrayed against Dayton and Wien is a different species of gadfly that opposes almost all corporate charity. Milton Friedman is supposedly the headmaster of the give-nothing school. "Corporations have no money to give to anyone," he insists. "It belongs to their workers, their employees, or their shareholders." But he makes two big exceptions, which bring his philosophy pretty much into line with

Lawrence Wien, 76, buys shares in corporations and prods them to give more to charities. Rather than suffer a Wien roast at the shareholders' meeting, some corporations make a deal with him beforehand. Wien is also part owner of the Empire State Building, which he can keep an eye on from his office window.



Joyce Ravid

corporate charity as actually practiced.

First, he says, closely held corporations in which the managers are the owners may contribute directly to charity to lessen the tax bite. Friedman also approves of contributions to local institutions, such as hospitals, colleges, museums, and parks, when they provide "marginal returns to the company greater than their marginal costs." If a \$100,000 contribution to a public park makes a city more attractive and so helps retain employees, saving the company at least \$100,000 in recruitment or other costs, it should make the gift.

Friedman refuses to call that philanthropy, however. To him, as to many companies, it is simply a business expense. "Real philanthropy," he says, "is that which will cost the company more than it will add to its value in the short term or the future." And it is real philanthropy that Friedman opposes. (His conviction did not stop him from accepting corporate underwriting for his public-television series, *Free to Choose*. "I'm

against rent control, too," he explains, "but that doesn't mean I won't live in a rent-controlled apartment.")

Friedman's test for distinguishing legitimate business expense from real philanthropy seems a bit narrow. It implies that the additional income attributable to an improved park can be plotted on a graph. It can't. A broader and more plausible rule might be: real philanthropy is giving that lies beyond a corporation's self-interest. Determining how far the radius of self-interest extends from the company premises is difficult and, to some degree, inherently arbitrary. But companies should make the effort. They should not first decide how much money to give away and then look over the folks waiting on line.

Clearly the hospital that cares for injured workers lies within the ambit of a company's self-interest, as does the attractive park. So does the corporate matching-gifts program, first introduced in 1955 by General Electric as a fringe benefit

meant to attract and retain employees. (GE matched \$200,000 in employee gifts to higher education. Such programs are now one of the fastest-growing forms of corporate contribution, accounting for \$39 million contributed by 846 companies last year. Some 126 of those companies now match on a more than one-for-one basis.)

Similarly, the corporations that underwrote *Free to Choose* can argue that their gifts were in their self-interest, since the series defends the market system, which is vital to corporate survival. Another company might justify a contribution to sickle-cell-anemia research and still another a gift to a ballet company on the ground that they promote a healthy society and so the company's success.

Dividends from the dance

Almost any project might qualify as serving some corporation's self-interest, but that doesn't mean every undertaking will. New York City has 200 or so professional dance companies, most asking for philanthropic support. Probably some of these groups could fail without significantly affecting the city's cultural life. Many corporations will conclude that even a single dance company isn't essential, that no identifiable chain of cause and effect leads from dance to the corporation's success.

But a few companies will help finance the ballet and a few others museums of Indian arts and others the NAACP's legal-defense fund because they believe a healthy society requires such institutions. Doing so, those corporations are likely to serve their self-interest in an additional way: because they stand apart from the crowd, they are likely to get recognition. For most corporations, even better than doing good is to be seen doing good.

AT&T can tick off several reasons it spends \$3.5 million a year picking up the deficits the Boston, Chicago, Philadelphia, and other symphony orchestras accumulate touring the country. AT&T gets points with big customers by giving them free tickets. And the program "tells the employees that they're working for a quality

continued

The largest corporate contributions program—it will give away \$45 million this year, or more than the Rockefeller and Carnegie foundations combined—is overseen by Stephen Stamas, Exxon's vice president for public affairs. With relatively few employees and correspondingly little need to support local institutions that employees depend upon, Exxon can concentrate its charity on projects remote from immediate concerns, such as interdisciplinary studies at universities. Often the job of running the charity program falls to an obscure executive about to retire. But Stamas, 50, is both vigorous and visible. He is, among other things, an overseer of Harvard and a director of the Council on Foreign Relations.

company," says Edward Block, an executive vice president who supervises Ma Bell's contributions. "They comb their hair better. They work better."

Philip Morris is also clear why it lays out \$20,000 to \$250,000 per year for each of 15 or so exhibits of contemporary American painting and other visual arts. Says Barbara Reuter, a former art professor and now manager of corporate support programs at Philip Morris, "The people we're interested in impressing are the opinion leaders." Philip Morris wants to be perceived as a valuable corporate citizen when legislators ponder such questions as whether to eliminate tobacco subsidies or require deposits on Miller and 7-Up bottles.

Recipients, of course, recognize what makes them appealing to corporations. "We've got the Smithsonian up for sale," wisecracks Gene Katt, deputy director of the program fund for the Corporation for Public Broadcasting. What he means is that the CPB would like to develop a series based on the Smithsonian's vast collections of paintings, inventions, and other treasures and is seeking corporations to put up the money; in exchange, the underwriters would be listed in the credits and so would bask in the Smithsonian's glory.

Different companies, having different interests, need different philanthropic strategies. Following are four approaches



Joyce Ravid

that are alike only in that each has been carefully thought out to serve its creator's interests.

STAND-UP CONSERVATIVE. Edward Littlejohn, vice president of public affairs for Pfizer Inc., thinks that some corporations make charitable contributions as a sort of apology. "It's as though they were trying to justify their profits by giving some of them away," he says. He complains, moreover, that some corporations turn their backs on the market system that makes corporations possible. Littlejohn was disturbed when one huge corporation declined to contribute to a study of capitalism because it did not want to get involved in an ideological controversy. Littlejohn also cites a recent theatrical production in an eastern city. In the play workers complained about the emptiness of their jobs. In the audience—and applauding the broadside against capitalism—were executives of corporations that had sponsored the production.

Pfizer believes that its self-interest is tied to the success of the market system and traditional American values, and that it should spend at least a small portion of its \$2-million-a-year contributions budget (1.9% of pretax earnings) strengthening them. Among the conservative causes that Pfizer contributed to last year were the American Enterprise Institute and the *National Review*.

Pfizer has also pledged a minimum of \$5,000 a year to the Institute for Educational Affairs, founded two years ago by former Treasury Secretary William E. Simon and social critic Irving Kristol. The IEA aims to channel money into journalistic and academic projects that do not share the "adversary" ethos that, in IEA's view, disposes modern culture to condemn the society, including the economic system, that sustains it. The IEA made grants of \$539,000 last year, including \$28,250 for development of a course to instruct college teachers in the achievement of the American Founders and \$20,000 to

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TOUGH LIBERAL. "When we went public
in 1971, we told investors right in the pro-
spectus that we had strong convictions
about our social responsibilities," ob-
serves Walter A. Haas Jr., chairman of
Levi Strauss. True to that warning, the
clothing manufacturer has been a gen-
erous contributor to charity, donating \$9.6
million in 1980, or 3.1% of pretax earn-
ings. (Several onetime gifts made that
about double the company's usual amount
of giving.) Much of the money finances
projects for the poor and downtrodden.
Haas believes the company's liberal rep-
utation has helped recruit bright young
people, who he thinks are likely to be in-
terested not just in denim but in the
nation's social fabric as well.

Levi Strauss is not a soft touch, how-
ever. It scrutinizes the programs in which
it invests. In each of the 65 communities
in which Levi Strauss has plants, em-
ployees are encouraged to seek out worth-
while projects, recruit colleagues, and
raise funds for those projects. Only after
the employees have voted with their time
and dollars does the company join in. Last
year Levi Strauss contributed some \$1.5
million to such employee-initiated proj-
ects as a program for handicapped chil-
dren in Benton, Arkansas, and welfare
services for battered women in Memphis,
San Antonio, and Hobbs, New Mexico.

PARVENU PATRON. Until three years ago,
Interpace Corp., a Parsippany, New Jer-
sey, manufacturer of plumbing fixtures,
electrical insulators, and building prod-
ucts, had a conventionally passive con-
tributions program. The United Way and
a few other fund raisers would show up,
and Interpace would hand out about
\$150,000 a year, 0.5% of pretax earnings.

At a conference on business and the
arts, Chairman William Hartman was in-
spired by a consultant, who persuaded
him that with a moderate amount of mon-
ey Interpace could have an active, dis-
tinctive program. The company continues

continued

Getting to Wall Street via the museum

to give \$150,000 a year to local charities, but rather than give all that money automatically to United Way, the company allows individual plants to allocate their shares as they like. J.P. Ward Foundries in Blossburg, Pennsylvania, helped pay for a hospital's kidney dialysis machine.

Interpace spends an additional \$150,000 on sculpture, mostly backing shows at New York City museums. The offbeat scheme has two major objectives. The company wants its name to be familiar on Wall Street because it needs credit to acquire other companies; investment bankers sit on museum boards. Second, it wants to give managers and employees of newly acquired divisions a sense of Interpace's commitment to quality. Since 80% of Interpace's employees work with materials like clay, steel, and aluminum, a tangible art form like sculpture is something management believes they will understand and respect.

ENLIGHTENED EDUCATOR. In the mid-1970s General Motors, seeking to improve its management-recruiting program, decided to concentrate most of its generous education grants—\$10.8 million last year—on 13 business schools and 42 engineering schools it deemed crucial. (Education grants account for close to half of GM's charitable giving; the rest goes to hospitals, museums, and other institutions where GM has plants.)

"Half a dozen years ago we would have given money to Harvard that might have wound up in the hands of an archaeology student on his way to look at King Tut's tomb," says Robert J. McCabe, who has run GM's contributions program since 1978. "Now we give money directly to Harvard Business School."

Unlike most big companies, GM does not match employees' contributions to schools. The company doesn't want to send its money to all the colleges that have provided employees in the past—just the ones it wants to tap in the future. Nor does GM endow chairs. Says McCabe: "If we give \$1 million to a school to set up the Tom Murphy chair of eco-

continued



A MAN AND HIS CIGAR.

The man: Lee A. Iacocca,
Chairman, Chrysler Corporation.

The cigar: Don Diego "Imperial"

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*GM has
35 ways to
say no.*

nomics, that's the last time the school listens to us. If we give them a little something every year, we have their continuing attention for our ideas about things like changes in the curriculum."

McCabe would like to make an additional contribution to philanthropy—his experience as an unsentimental, dry-eyed giver. He is convinced that one of the principal reasons smaller companies do not set up contributions programs is the fear of being drowned in requests. McCabe says that GM and other hardened donors could establish an information center that would help novices deal with such worries. "We could show them the 35 form letters that GM has developed to turn down applicants," he says enthusiastically. "We have learned how to say no."

Over the past 25 years U.S. companies have given a total of perhaps \$50 billion in 1980 dollars, roughly the equivalent of all the money spent on land and buildings at all private college and university campuses in that period. What difference has it made in the American topography? The impact is impossible to measure accurately, yet some projects stand out. Minneapolis probably would not have flourished so without the generosity of the city's businesses. Hartford's 55-piece symphony orchestra, its 26-member ballet company, and its 2,733-seat theater thrive largely because of the contributions of local corporations.

But most corporate money has slipped silently into the mainstream of charity. Corporations have done surprisingly little to trace it, evaluate its effectiveness, or even let the public know that they have made something of a sacrifice to provide it. Much of the public seems to be under the impression that charity costs the corporation nothing, that all those dollars would otherwise flow to the government as taxes. Corporations should give more—if it's in their interest—but they should also make it clear that they have given a lot already. In a cynical age they need all the credit they can get. **F**

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